CALIFORNIA STUDENT AID COMMISSION

PERFORMANCE REVIEW

OF EDFUND

June 2005

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The California Student Aid Commission (Commission) serves as the state student loan guarantee agency for purposes of the Federal Family Education Loan (FFEL) Program. Per Education Code §69522 (a)(1) the Commission established an auxiliary organization, EDFUND, for the purpose of providing operational and administrative services for the Commission's participation in the FFEL Program and for other student financial aid activities approved by the Commission consistent with the federal Higher Education Act.

State legislation was passed in 2004 permitting the Commission and its auxiliary, EDFUND, to examine a limited range of options for business diversification and to undertake potentially promising lines of business that could augment revenues and complement its core FFEL Program services. The legislation required approval by the Department of Finance and the Joint Legislative Budget Committee before the Commission and EDFUND could actually launch any new business diversification initiative, and it called on the Commission to conduct an assessment of the capacity (in regards to both human and financial resources) to meet the challenge of expanding. (See Appendix A for statutory authority.)

Expanded authority for business diversification was provided because the fundamental financial and competitive terms and conditions facing participants in the FFEL Program have changed dramatically in recent years and will likely change even more this year. Like other guarantee agencies, the Commission and its auxiliary, EDFUND, need to:

- Re-examine the basic assumptions of the current business model;
- Re-evaluate technology and services;
- Re-assess marketing strategies;
- Undertake a thorough organizational risk assessment in relation to the existing portfolio and future growth strategies;
- Renegotiate its Voluntary Flexible Agreement with the U.S. Department of Education;
- Maximize the efficiency and effectiveness of its collection recoveries on student loans that default;
- Continue to explore business diversification options; and,
- Accomplish all this in the face of heightened competition from other major guarantors that are also trying to expand their loan guarantee volume while revenue margins narrow.

Succeeding in this difficult, challenging, competitive business environment requires a level of cooperation, clarity of focus, and shared sense of purpose. There are abundant examples of growing interdependencies and day-to-day cooperation between the two organizations that provide considerable strength and mutual support for key activities. These interactions by staff enhance the performance and effectiveness of both organizations.

This performance review assessed EDFUND in terms of efficiency of operations, guaranty and future business, and public accountability. The review focused on EDFUND's 2003-04 fiscal year, but included additional years as necessary. The comments and observations focus on constructive ways to improve so that the Commission and EDFUND Board, along with management, can work more effectively together to strengthen joint planning efforts and ensure adequate funding in the Student Loan Operating Fund to continue providing the essential loan guarantee services and the other student financial aid related benefits upon which so many students and institutions depend.

Since it was established in 1997, EDFUND has become one of the nation's leading providers of student loan services under the FFEL Program. EDFUND currently processes approximately $7 billion a year in federal student loans and administers an outstanding loan portfolio worth more than $24 billion. EDFUND meets these goals with a staff of approximately 660 employees.

With the support of the Commission, EDFUND has accomplished the following:

- The FFEL Program nationwide grew by an average annual rate of 10 percent; EDFUND's growth rate was over 20 percent, due to more colleges choosing EDFUND's student-centered, customer service-oriented approach to student loan guarantee services;
- EDFUND cut its student loan default rate in half, from 14.4 percent to 6.9 percent;
- EDFUND increased defaulted loan collection recoveries from $194 million annually to $385 million annually;
- EDFUND more than doubled annual revenues from $73 million to $151 million, while its standard loan program expenses grew from $49 million to $81 million annually; and
- EDFUND developed and sustained a superior audit record, with the recent resolution of all old (pre-1995) audit issues with the U.S. Department of Education.

EDFUND is still a relatively new company and there are performance and administrative areas that can be improved. This report focuses on the following areas and recommendations for improvement:

1. Fiduciary Responsibilities

   The Commission and EDFUND Board agree on the budget for loan program expenditures each year and EDFUND is held accountable for meeting its loan program obligations and performance expectations within its budgeted resources.

   - While acknowledging EDFUND's need for flexibility in administering loan program operations, the increased scrutiny by the State has created a need for enhanced budgetary controls. As the student loan business becomes increasingly competitive, as operating margins decline, and as the State continues its dependency on using the Student Loan Operating Fund, joint planning between the two organizations becomes more essential. In order to make appropriate fiduciary recommendations, both Commission and EDFUND management must have access to the same information and should dedicate significant time and effort to more joint planning.

2. Contracting Practices

   EDFUND's contracting process includes competitive bidding, single source contracts, and sole source contracting.

   - To ensure that EDFUND maximizes the value it receives from its contracts with outside providers, the EDFUND Board should re-examine existing contracting policies, determine if these should be strengthened or changed and ensure that the policies are followed.

3. Compensation

The EDFUND Board initially established the salary ranges for all EDFUND positions based on the work of an outside compensation consulting firm and periodically reevaluates and revises the salary ranges. The EDFUND Board determines the president's salary and compensation and has delegated the vice presidents' compensation to the president.

- To ensure that EDFUND attracts and retains experienced and qualified staff while preserving an appropriate reputation as a nonprofit public benefit organization and auxiliary of the Commission, the EDFUND Board should examine existing practices for achieving a competitive and effective compensation plan and determine if these should be strengthened or changed and report decisions regarding compensation plans to the Commission.

4. Operating Efficiencies

The Commission is the designated guarantee agency and has the responsibility to conduct performance evaluations of the operations of EDFUND. EDFUND provides loan program operational and support services essential to the administration of the FFEL Program and other Commission financial aid programs. Increased interdependencies require maximizing efficiencies between both the Commission and EDFUND.

- The current operating agreement is outdated and needs to be revised**.**
- The Commission management must be able to evaluate EDFUND's performance in a timely manner through a well defined operating agreement that avoids confusion about roles and responsibilities, and includes an agreed upon process for reviewing EDFUND's annual performance goals, the performance measurements, and the weights assigned to each goal.
- The Commission and EDFUND management need to continue to work to identify redundancies and potential efficiencies.
- The Commission and EDFUND are facing changes in the operation of the FFEL Program and management from both should develop a well-considered and comprehensive analysis with regard to the downside risk to the Student Loan Operating Fund.

The Commission and EDFUND Board, along with management, have begun working on many of these areas and are committed to being more efficient and responsive to the changing revenue subsidies that fund the federal loan program in order to ensure the overall financial and programmatic success of the programs administered by both organizations.

ANALYSIS

I. FIDUCIARY RESPONSIBILITIES

Budgets serve as an essential tool for managing an organization, both fiscally and strategically, for the short-term and the long-term. The budget expresses an operational plan in financial terms. An operational plan identifies specific results to be accomplished within a given time period. Budgets serve as a tool driven by the operational plan or business strategies. Effective budgeting emphasizes that even though budgets are designed to establish spending parameters for a limited period, budgets should strive to take a long-range perspective.

EDFUND's budget process and budget documents are generally aligned with the National Advisory Council on State and Local Budgets. EDFUND's system of top-down budgeting calls for strategic evaluation of non-core expenditures. The "top-down" budgeting process is meant to provide EDFUND with the opportunity for a strategic approach to evaluating expenses for their overall contribution to EDFUND's mission as well as their cost-effectiveness.

In the 2003-04 budget cycle, EDFUND's senior management and the EDFUND Finance, Budget & Audit Committee set the broader goal of decreasing loan expenses relative to projected revenue to achieve an operating surplus in the loan program. The preliminary revenue and expense operating targets for "top-down" budgeting activities, including expenditure targets for each division are developed and then EDFUND management creates a long-range forecast of revenues and expenditures at a very high level of detail for the current year plus five additional years.

However, EDFUND's budget results for the past several years raised some concerns during the performance evaluation.

- T<u>he difference between the approved budget and the actual expenditures for EDFUND's budget has averaged 10.3 percent over the last three years.</u>

  An approved budget that consistently includes a 10 percent variance brings into question the ongoing accuracy of expenditure targets. Per EDFUND management, as a result of the implementation of new technology systems, renegotiation of major collections contracts, and reduction of staff in some areas, EDFUND was able to reduce expenditures by $2.2 million in 2001-02 and 2002-03 and by $4 million in 2003-04. In the latter two years, the EDSHARE grant program also experienced lower-than-anticipated grant awards.

  After considering the savings identified by EDFUND, the difference between the approved budget and the actual expenditures averaged 7.3 percent over the same three years.

  It is important to note that dollars which are budgeted, but are not spent by EDFUND in a given fiscal year are retained in the Student Loan Operating Fund. However, as the Student Loan Operating Fund becomes smaller, it is extremely important that all planned expenditures be as accurately estimated as possible. Core loan program expenses and state priorities for the Commission must all be funded out of the Student Loan Operating

Fund and good planning along with continued efforts to reduce non-essential costs are going to be essential to ensure the viability of both EDFUND and the Commission.

To that end, it is essential that EDFUND management develop more accurate estimates for expenses and savings in future years. In addition, EDFUND management must be able to explain how funding is allocated to major program areas. In the event that a funding reduction is required, the Commission and EDFUND management will be able to make appropriate recommendations to the Commission and EDFUND Board in relation to the goals set in the operating agreement and annual business plan.

- <u>The contingency line item expense in EDFUND's budget may provide unnecessary budget flexibility</u>.

  The 3 percent contingency budget item was added to EDFUND's budget beginning in FY 2000-2001 prior to the adoption of top-down budgeting and has not been revisited in four years. The contingency budget was established by EDFUND management and accepted by the EDFUND Board through its approval of EDFUND's budget, at 3 percent of the core loan program budget.

  The approach to EDFUND's contingency item was to give the President discretion over a source of funds during the year for needs that could not be anticipated at the beginning of the fiscal year. The use of the contingency funds does not require prior EDFUND Board or Commission approval. The President reports all expenditures from the contingency fund to the EDFUND Board's Finance Committee and to Commission staff.

  The contingency fund provides valuable flexibility necessary for EDFUND to be able to quickly react to market conditions and customer needs. In the past, contingency funds have been used to fund products and services requested by customers or required by the marketplace in order to compete with offerings made by other guarantors. But, the performance review found that the justification for some of the expenditures could have been better documented.

  Another concern raised in the performance review was that EDFUND's actual expenditures of the contingency funds consistently fall well below the estimated contingency budget. Budgeting for a larger amount than needed after several years of experience is not a good practice. The EDFUND Board should therefore re-examine the policies and procedures used by the organization in the management of contingency funds and determine if these should be strengthened or changed, and should also consider whether the percentage of total budget allocated to contingency should be reduced.

- <u>The adoption of the financial planning assumptions underlying the development of the Capital Utilization Plan resulted in the Commission no longer approving a detailed EDFUND budget expenditure plan.</u>

  At its November 21, 2003 Commission meeting, the Commission delegated budget responsibilities in the following manner: "the Commission approves the detailed Operating Budget of CSAC and the outreach campaign; the EDFUND Board approves the detailed budget of EDFUND for the operation of the FFEL Program." Under this process, the Commission approved a total funding amount for EDFUND operations in

January for the budget year that begins the following October. The Commission has no formal role with regard to the amount of funding EDFUND chooses to allocate to contingency, discretionary, and core expenses. The Commission also has no formal role with regard to how EDFUND prioritizes resource allocation across major program areas. This policy has given EDFUND the flexibility it needs to ensure that it meets the performance goals established in the organization's business plan and approved by the Commission. But, the delegation has created questions related to the Commission's oversight of EDFUND's planned and actual spending activity.

Since both EDFUND and the Commission must finance their operations from the Student Loan Operating Fund, the Commission has a stake in the decisions EDFUND makes with regards to the strategic use of the allocated funds. Likewise, EDFUND must be aware of the planned uses of the Student Loan Operating Fund by the Commission and the State. The two organizations together should develop a more consistent and timely approach to planning and tracking revenue and expense trends of both organizations.

With the advent of greater scrutiny by the State and the State's reliance on the Student Loan Operating Fund, the Commission and EDFUND will need to work more closely than previously to ensure that the State Department of Finance and the Legislative Budget Committees understand near and longer term spending and revenue trends and to ensure that sufficient cash is retained for operating requirements.

- <u>During the year, use of the contingency fund results in changes in EDFUND's approved budget figures which are challenging to track</u>.

  As funds are spent out of the contingency budget, the contingency line is decreased and other line items are increased. As a result, each monthly budget report comparing budgeted expenditures to actual expenditures will always show $0 for contingency actual year-to-date expenditures, while the amount for the approved budget for contingency will change as the contingency line item is reduced for expenditures. While documentation is available to identify changes, no regular report retraces EDFUND's expenditures from the original approved figures to the revised approved figures.

The Commission recommends the following:

A joint planning effort should be reinstituted, regular updates on any changes to revenue or expenditure forecasts should be examined, and financial reporting should be improved and made more consistent. As part of this effort, Commission staff should have on-line access to EDFUND financial systems to help monitor cash flow. The EDFUND Board should re-examine the question of what an appropriate amount should be allocated to the contingency fund and should review current policies and practices regarding its use for the purpose of determining if these should be strengthened or changed.

II. CONTRACTING PRACTICES

Competition in procurement and contracting is designed to accomplish a number of aims that will benefit an organization. Competition often leads to a better price; when vendors compete for a service, they typically will reduce prices in order to win a contract, saving the organization money. In addition, competition also can yield better results: when vendors are given an opportunity to suggest solutions, organizations can pick and choose from solutions that best address the problems that they are seeking to remedy. Competition also encourages vendors to incorporate more state-of-the-art goods, services, or processes in an effort to win a contract. Finally, with public sector entities, competitive bidding increases transparency, heightens public scrutiny and awareness, and reduces the opportunities for conflict of interest and self-dealing.

Sole source contracts are those contracts for goods and services where only one vendor is given the opportunity to bid for the specified goods/services because of existing business requirements, limited sources or unique conditions. Single source contracts occur when only a single individual or business enterprise is able to provide the specified goods and services.

EDFUND has adopted several separate policies and procedures pertaining to contracting that include definitions, types of contracting permitted, bidding requirements, documentation and processing requirements, and levels of authority for approvals.

EDFUND contract policies and procedures cover critical topics for the initiation and management of contracts. The procedures delineate when and how to initiate contract requests, and approval authority for both the initial request and eventual execution of contracts. They specifically indicate the need for three bids for procurements over $10,000 unless three vendors are not available. However, the procedures could provide more detailed requirements to describe what information should be contained in justifications and cost benefit analyses in order to provide sufficient information to managers to assist in making informed decisions about the need to contract work out versus completing it in-house.

The review of EDFUND contracts revealed the following

- <u>EDFUND policies do not address the issue of daisy chaining in contract processing</u>.

  While there is no evidence that this has occurred at EDFUND, explicit prohibitions against daisy chaining practices strengthen contracting policies in an organization and it would be useful to include such prohibitions in EDFUND's policies.

- <u>Approximately 20% of EDFUND'S contracts in 2003-04 were sole source contracts or sole-source contract amendments.</u>

  EDFUND management reported that many of the contracts meet EDFUND's policy for sole source contracting as the vendor had special expertise or unique qualifications. EDFUND management also reported that sole sourcing was used to amend contracts originally competitively bid based on the value of services provided in the original contract.

  While all procurement need not be competitively bid, some of these non-competitively bid contracts may represent the possibility of lost opportunities. A well-conceived procurement process need not be unduly time-consuming or labor-intensive. In fact, a well-conceived procurement can aid effective program planning. EDFUND policies do not provide much guidance on what would be adequate justification for sole source contracts.

  EDFUND staff maintains a contract log that indicates the type of contract (competitively bid or sole source) and sends the log periodically to Commission staff. However, the log does not differentiate between single source and sole source. The documentation process of the contract logs should be enhanced to be more detailed.

The Commission recommends the following:

> One of the purposes of establishing EDFUND as the Commission's auxiliary organization was to provide more flexibility to respond to competitive business requirements without the highly prescribed contracting process that may limit the responsiveness of state agencies. Nonetheless, we recommend that the EDFUND Board re-examine the organizations contracting policies and procedures and determine if these should be strengthened or changed. This re-examination should address the types of justifications provided before approving competitively bid, single source, and especially sole source contracts and amendments to sole source contracts. The process should balance the need for administrative flexibility with the need to ensure accountability.

III. COMPENSATION

Growth of compensation for nonprofit executives has come under more scrutiny by the Internal Revenue Service (IRS) and the State in recent years. Regulations such as the IRS Intermediate Sanctions Regulations and California Nonprofit Integrity Act of 2004 provide the regulatory framework for compensation decisions within nonprofit organizations.

EDFUND's Board has been designated as responsible to the Commission for the establishment of EDFUND's Incentive Compensation Plans. Due to the intrinsic relationship of EDFUND to the Commission, and Commissioners also serving as members of the EDFUND Board, these new regulations introduced a set of factors that the Commission must consider as they potentially could affect the organization.

The salary grades and dollar ranges for all EDFUND positions were adopted by the initial EDFUND Board in 1997, based on the work of an outside compensation consulting firm. These have been evaluated and updated twice by the EDFUND Board in the intervening years. The president's salary and any merit increases are determined by the EDFUND Board.

The EDFUND Board has delegated decisions regarding the salaries of vice presidents to the president. Currently, salaries for the vice presidents are set by the President and fall within the established range for that position. Raises are determined by the president, following the same performance evaluation process used to evaluate all EDFUND at-will employees. The president's salary and any merit increases are determined by the EDFUND Board.

Through a Commission Policy Statement and Guidelines Memo, "EDFUND Incentive Compensation Plans" (August 12, 2002), the Commission delegated responsibility to propose the amounts of Executive Incentive Compensation payment to the EDFUND Board or its designated committee. That memo requires the EDFUND Board to provide the Commission's executive director with documentation that details the overall performance of EDFUND and an assessment of the individual performance of the organization's president at the end of each fiscal year. Thus, the EDFUND Board is responsible for recommending the proposed incentive compensation amount, if any, for the president, as well as the total incentive compensation amount for the executive management team.

In the area of compensation, there are issues regarding the EDFUND Board's process for setting salaries and incentive bonuses for EDFUND senior management:

- Salary comparison information from peer organizations is difficult to determine.

  The president's salary is within range of other large guarantee agencies. The president's current salary was set through a process that included comparisons with both other guarantee agencies and non-profit corporations of similar size, scope and mission. This process was administered by the EDFUND Board with the assistance of an outside human resources firm. The EDFUND Board should report to the Commission the process, comparisons and decisions made in relation to the president's salary.

- The current plan for awarding incentive compensation to EDFUND staff is overly complicated and difficult to understand.

  One component of the incentive compensation plan for EDFUND staff is EDFUND's overall performance based on the goals established in the annual business plan. The current methodology used to assess EDFUND's overall performance is complicated and is made more so by the scoring system and the weighting formula.

- The yearly planning process does not include sufficient analysis of prior year end performance.

  When goals are not met, this becomes a tool that can be used to inform goal-setting for the following year. Goals not achieved may be an indication of poor performance, inflexibility of the organization to meet changing demands, incorrect identification of business drivers, or management's inability to adjust operations to meet demands. A thorough analysis of the cause when performance goals are not met can generate action items to highlight issues for the next year's performance.

The Commission recommends the following:

> EDFUND's compensation structure has a direct effect on the organization's effectiveness. The organization's long term success depends on the performance of staff at all levels, and particularly the executive management team. Decisions about salaries and incentive compensation must be made with a high degree of integrity based on sound salary comparisons and a rigorous review process. The EDFUND Board of Directors should re-examine the process by which incentive compensation is approved for both regular staff and executive management, and work to ensure that there is mutual understanding on the part of the Commission and EDFUND regarding the process by which incentive compensation is determined and approved.

IV. OPERATING EFFICIENCIES

Pursuant to statute, the Commission is the designated guarantee agency and has responsibility for financial aid program administration, policy leadership, program evaluation, and information development and coordination. EDFUND provides operational and support services essential to the administration of the FFEL Program and other permitted activities that are related to student financial aid, if those services are determined by the Commission to be consistent with the overall mission of the Commission. An operating agreement between the Commission and EDFUND is the vehicle for defining the respective roles and expectations of each organization.

The Commission and EDFUND staffs work collaboratively in many areas. There are abundant examples of growing interdependencies and day-to-day cooperation between the two organizations that provide considerable strength and mutual support for key activities. For example, the human resource functions of both organizations work well together and serve common needs and purposes. Similarly, within the information technology and communications areas, there is a consistent pattern of joint projects and collaboration. These interactions by staff enhance the performance and effectiveness of both organizations. The range of support services provided to the Commission and its customers through EDFUND gives the Commission the ability to operate with speed and flexibility and respond to pressing customer needs and expectations.

However, the current operating agreement is subject to interpretation and has resulted in duplicative activity:

- Both the Commission and EDFUND have public affairs functions.

  The current operating agreement indicates that EDFUND shall provide services that include advocating legislative and regulatory positions as directed by the Commission. EDFUND staff has ongoing contact with Congressional representatives in home districts and in Washington D.C. regarding pending legislation. While there is ample rationale for maintaining some organization-specific functions, both organizations should explore potential opportunities for savings and the development of a more unified public affairs strategy, potentially through the creation of a joint staff workgroup. Through a joint staff workgroup, direct contact with, and outreach to, federal and state governmental agencies can be carried out most effectively and efficiently through "one voice" ensuring a consistent message.

- Both the Commission and EDFUND have financial operations functions that account for the loan program funds.

  EDFUND's financial operations staff is responsible for the on-going accounting and budgeting activities within EDFUND and is the initial recipient of the revenues for the FFEL Program. Because the funds supporting the FFEL Program are established accounts in the State Treasury, the Commission's fiscal staff must also maintain accurate records on these funds. Currently EDFUND staff provides monthly invoices for expenditures and deposits for revenue to Commission staff at a summary level. The detail is maintained by EDFUND and is available upon request.

  When EDFUND was first created, it made use of CALSTARS, the State's finance and accounting system maintained by the Department of Finance. This was done for convenience and as a temporary measure until an appropriate accounting system was obtained by EDFUND. During that period, Commission staff had direct access to EDFUND's financials. However, as EDFUND's financial system has evolved from CALSTARS to its current Oracle platform, Commission staff lost their direct access to EDFUND's financials. Commission staff recently requested access to EDFUND's financial system, and EDFUND management has agreed to this request.

- The Commission and EDFUND are facing changes in the operation of the FFEL Program and there needs to be a well-considered and comprehensive analysis with regard to the downside risk to the Student Loan Operating Fund.

  To ensure continued viability and future business, the Commission and EDFUND management should work together to establish an approach to planning that ensures adequate funding for the Student Loan Operating Fund and the capacity of the Commission and EDFUND to meet their shared responsibilities for delivery of the FFEL Program in California and beyond. The potentially profound consequences of the timing and impact of any future decision about reinstituting a guarantee fee on future loan guarantee volume, EDFUND's market share and competitive position, and accompanying revenues should be a central focus. The Commission is refining the roles and responsibilities so that Commission staff can participate more effectively in that planning process. Commission staff need to become more familiar with and develop a deeper understanding of marketing, environmental scans, and budget proposals provided in EDFUND's annual business plan.

  EDFUND management has expressed concerns regarding its limited knowledge of decisions being made by the Commission or the State to expend funds from the Student Loan Operating Fund, which may have an impact on EDFUND's planning and/or operations. While Commission management does inform EDFUND management of financial decisions being contemplated as soon as possible, the State's budget process is confidential and at times the Commission management is not in a position to discuss specific information prior to disclosure by the Administration.

The Commission recommends the following:

- The current operating agreement is outdated and needs to be revised. The new operating agreement should accommodate the decisions regarding the roles and responsibilities of the two organizations. The Commission has asked the EDFUND Board to make recommendations on the roles and responsibilities of the EDFUND Board. The new operating agreement can be multi-year if the basic services provided by EDFUND and long term goals are well defined in the agreement. Strategic short-term performance goals, standards and weights and the operating budget should be included in EDFUND's business plan, which would be approved annually by the EDFUND Board and Commission.

- Commission and EDFUND management need to identify redundancies and operating efficiencies in both organizations in order to lower costs given that Student Loan Operating Fund reserves have been reduced and the business model and revenue streams for the FFEL Program may be changed with the reauthorization of the Higher Education Act. The Commission and the EDFUND Board should re-examine allocations within the Capital Utilization Plan. The Commission will also examine the loan program operating budget.

APPENDIX A

<table>
<tr><th>Statutory Regulation</th><th>Description</th></tr>
<tr><td>California Education Code §69522 (a)(1)</td><td>The Commission may establish an auxiliary organization for the purpose of providing operational and administrative services for the Commission's participation in the Federal Family Education Loan (FFEL) Program, or for other activities approved by the commission.</td></tr>
<tr><td>California Education Code §69522 (b)</td><td>The auxiliary organization shall be established and maintained as a nonprofit public benefit corporation subject to the Nonprofit Public Benefit Corporation Law except that, if there is a conflict between this article and the Nonprofit Public Benefit Corporation Law, this article shall prevail.</td></tr>
<tr><td>California Education Code §69522 (c)(1)</td><td>The Commission shall maintain its responsibility for financial aid program administration, policy leadership program evaluation, and information development and coordination. The auxiliary organization shall provide operational and support services essential to the administration of the FFEL Program and other permitted activities that are related to student financial aid, if those services are determined by the commission to be consistent with the overall mission of the Commission.</td></tr>
<tr><td>Chapter 216, Statutes 2004 (Senate Bill 1108) enacted on August 11, 2004 and Chapter 657, Statutes 2004 (Assembly Bill 2122) enacted on September 21, 2004.</td><td>(1) Authorized the Commission to diversify its business by allowing the Commission to approve other activities in which its auxiliary organization could engage if the Commission determined those other activities were:
- related to student financial aid;
- consistent with the general mission of the commission; and
- consistent with the purposes of the federal Higher Education Act of 1965 (Public Law 89-329), as amended, but:
A. Added the requirement that the Commission notify the Legislature and the Director of Finance at least 45 days before implementing any business diversification decisions; and
B. Added the requirement that the Commission meet with the Legislature and the Director of Finance if they have concerns about the Commission's business diversification decisions.
(2) Established greater oversight by the Legislature and the Administration of the Commission's auxiliary organization by:
A. Adding the requirement that the Commission conduct regular performance reviews of the operation of the</td></tr>
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Statutory Regulation	Description
	auxiliary organization in furtherance of the Commission's fiscal and fiduciary responsibilities for approved programs; B. Adding the requirement that the Commission's annual report to the Legislature include the level of compensation of managers and executives of the auxiliary organization; and C. Adding the requirement that the Commission annually describe the actions taken, the costs incurred and the revenues realized by the auxiliary organization in disbursement services, loan servicing and repayment, secondary market, and private lender activities under business diversification.
California Education Code §69525	The Commission determines the composition of, and nominates and appoints the members of, the EDFUND Board of Directors.
California Education Code §69526(b)(1)	The Commission must consult with the Department of Finance and the EDFUND Board and must institute a standard accounting and reporting system for the management and operations of EDFUND.
California Education Code §69526(b)(2)	The Commission must consult with the Department of Finance and the EDFUND Board and must implement financial standards that will ensure the fiscal viability of EDFUND. These standards "shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements."
California Education Code §69526(b)(3)	The Commission must consult with the Department of Finance and the EDFUND Board and must institute procedures to ensure that EDFUND transactions are consistent with the Commission's mission.
California Education Code §69522(d)(1)	The Commission must ensure that EDFUND's operations "shall be conducted in conformity with an operating agreement approved annually by the commission…The operations of the auxiliary organization shall be limited to services prescribed in that agreement."